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C O N F I D E N T I A L SECTION 01 OF 02 BUENOS AIRES 000549

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TAGS: [PGOV](#) [PREL](#) [ECON](#) [EFIN](#) [EAID](#) [AR](#)

SUBJECT: IDB PRESIDENT ON ARGENTINA: WORSENING INFLATION
AND CRACKS IN KIRCHNER SUPPORT BASE

REF: A. BUENOS AIRES 496

[1](#)B. BUENOS AIRES 439

[1](#)C. 2007 BUENOS AIRES 2216

[1](#)D. BUENOS AIRES 547

[1](#)E. BUENOS AIRES 540

Classified By: Ambassador E.A. Wayne for Reasons 1.4 (b,d)

Summary

[1](#)1. (C) IDB President Moreno told Ambassador April 21 that his two takeaways from his latest visit to Argentina are that inflation appears to be getting out of control and there is increasing willingness to stand up to the Kirchners. Moreno noted that high commodity prices are saving Argentina, but expects increasing demand for IDB lending to Argentina as the situation deteriorates. Moreno commented that, following the SIDOR nationalization (Ref A) and fallout from the Antonini-Wilson case (Ref B), President Kirchner is starting to understand the high political cost of dealing with Venezuela. He urged the President to help calm Ecuador's relationship with Colombia. Moreno and his local mission chief agreed that the IDB has an important role to play in Argentina, given the increasing challenges facing the country. Moreno's personal access to top GoA officials offers opportunities to influence the Kirchners to consider adopting more rational economic policies. End Summary.

Moreno visit: Cracks in the Kirchner Armor

[1](#)2. (C) IDB President Luis Alberto Moreno visited Argentina April 17-22 to meet with GoA officials and sign new lines of credit to Argentina, with local press reporting a total value of approximately \$1 billion. He met late-evening April 21 with Ambassador, after he had had met with President Cristina Fernandez de Kirchner (CFK), Economy Minister Lousteau, and a number of Provincial Governors. In sharp contrast to past meetings (Ref C), Moreno expressed growing concern about the increasingly unstable political-economic environment in Argentina. He noted that his two impressions from this visit to Argentina are: 1) inflation is getting out of control and the Kirchners do not want to hear about it; and 2) there is increasing willingness to stand up to the Kirchners, particularly from the provinces.

"Cristina Doesn't Want to Hear About Inflation"

13. (C) In his earlier meeting with Economy Minister Martin Lousteau in Miami, during the annual IDB meeting in April, and again during this trip in Buenos Aires, Moreno said a frustrated Lousteau had warned about deteriorating inflation, and also stated that CFK has no interest in hearing about or dealing with it. (Lousteau resigned as Economy Minister April 24, with debate over how to handle inflation apparently a key factor -- see Ref D). Moreno added that he had received a similar impression during his own meeting with CFK on April 21. He commented that CFK and her husband, ex-President Nestor Kirchner, do not have much understanding that the Argentine economy is at a delicate stage and that world events "will" affect Argentina soon.

14. (C) "Wheat and soy prices are saving them" so far, said Moreno, who predicted that agricultural commodity prices would stay high or increase in the short to medium-term. Nevertheless, he expressed frustration that the Kirchners' unwillingness to confront -- or even discuss -- inflation or other brewing problems due to the overheating of the economy meant that no one else -- particularly the Economy Ministry team -- could address these problems. Moreno also speculated that the IDB would see increased demand for credits as the Argentina's economic situation worsens due to inflation and the impact of global financial turmoil. (He noted that he expected similar calls for increased IDB lending throughout the hemisphere.)

15. (C) Moreno suggested that the Kirchner government needed some kind of political cover to begin slowing the economy and also to reach a compromise solution with farmers to avoid continuing agricultural strikes (Ref E). However, IDB Country Director Daniel Oliveira argued that power, for the Kirchners, is having a lot of money to spend. He further contended that this precludes making significant changes to

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the "Kirchner Model" of taxing the productive agricultural sector in order to subsidize less efficient industry and spur domestic consumption.

Increasing Complaints, Although Still in Private

16. (C) Moreno noted that many provincial governors are quietly complaining about the Kirchner administration's policies and behavior. This was the first time he had heard such wide dissent from high-level officials that are nominally Kirchner supporters. The increase in export taxes on major agricultural commodities, which precipitated the three-week long agricultural sector strike in March, was particularly galling for them. Farming communities are the political base for many of these governors, but there is also increasing irritation at the federal government's use of export tax increases to boost revenue. Export tax revenue is not shared with the provinces, unlike most other forms of taxation, and Moreno alleged that the people living in the provinces have a "mental picture of these taxes funding corrupt politicians in Buenos Aires." The Ambassador agreed with Moreno's assessment of the increasing dissension within Argentine political circles, adding that battles within the GoA were just getting worse. (As the Lousteau resignation proves.)

Price of Friendship with Venezuela Increases

17. (C) Moreno commented that President Kirchner was beginning to understand the potentially high cost of aligning with Hugo Chavez' Venezuela. He said that the GoV's recent nationalization of the TERNIUM SIDOR steel mill, majority-owned by Argentine industrial giant Techint, and the ongoing fallout from the Antonini-Wilson "valija-gate" case, have driven the point home that cultivating a close

relationship with Chavez does not ensure protection against Chavez' irrational behavior. The Ambassador added that CFK had informed him that Chavez had not even bothered to inform her about his decision to nationalize SIDOR. Furthermore, CFK was increasingly critical of some of Chavez' more brazen actions, such as staging troops on the border.

18. (C) Regarding Colombia and Ecuador, Moreno said he urged CFK to try to calm Ecuadorian President Correa. He said he had a long chat on Colombia, trying to convince CFK to see the FARC and hostages as the Colombian people see them.

Comment: Need to Broaden Kirchners' Horizons

19. (C) Both Moreno and the Ambassador agreed that the root of many policy problems in Argentina is that most decisions are made by a small group of only four people: the two Kirchners, Chief of Cabinet Alberto Fernandez, and Legal and Technical Secretary Carlos Zannini. This group is not especially

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worldly in outlook, is increasingly isolated and distrustful of outside advice, is obsessed with protecting its political power base, and is focused largely on short-term governability. They also agreed that it was critical for entities such as foreign governments and, especially, organizations such as the IDB, to create opportunities to get key Argentine policy-makers out of Argentina, so as to widen their horizons. Moreno and Country Director Oliveira emphasized that the IDB is playing an important stabilizing role in Argentina, and is the only outside institution capable of encouraging different levels of the GoA to pursue more rational economic policies. The increasing importance of IDB lending to the GoA, along with Moreno's direct access to top levels of the GoA, together offer opportunities to broaden the Kirchners' understanding of the likely adverse consequences of continuing with the current economic model. Moreno and the IDB are also avenues to influence the Kirchners' to consider adopting more rational economic policies. End Comment.

WAYNE